

A black monkey with a white patch on its face is perched on a tree branch in a lush green forest. The monkey is looking to the right. The background is filled with sunlight filtering through the leaves.

The altruism dividend

By James Geary

Big business has much to gain from partnering with, investing in and sourcing from social enterprises

In 2006 Amazon.com and Stanford University Business School gave a \$1.6m social innovation award to DonorsChoose.org, which connects US schools in need with individuals who want to help. However, the non-profit organisation wasn't quite sure what to do with the money.

Giving away the cash would have gone against the organisation's "citizen philanthropy model", in which people donate small amounts to classroom projects of their own choosing. DonorsChoose.org thought about creating vouchers to give away for free, but the printing and distribution costs were prohibitive. So, in a reversal of the usual flow of solicitation and benefaction, DonorsChoose.org decided to channel some of the money through US home furnishings retailer Crate & Barrel in exchange for its commitment to print and distribute to its customers a set of DonorsChoose.org gift vouchers.

Crate & Barrel did just that, sending out 20,000 vouchers, ranging in value from \$25 to \$100, to customers in New York City and Chicago. Recipients just needed to visit DonorsChoose.org online to select a school and redeem their vouchers. Having done a good deed for a nice charity, Crate & Barrel might have been content to leave it at that. But then, says Charles Best, the Bronx

high school teacher who founded DonorsChoose.org in 2000, "the company was flooded with fan mail. Crate & Barrel didn't anticipate the business benefit they derived."

That benefit amounted to a lot more than just a postbag filled with fan mail. Crate & Barrel conducted a study of the gift voucher programme and found that 11% of the certificates had been redeemed at DonorsChoose.org; response rates for conventional direct mail pieces typically hover around 2%. Three-quarters of those who redeemed vouchers said they saw Crate & Barrel as community-minded, compared with 21% of those who did not receive vouchers. Six months later, customers who redeemed vouchers had spent 16% more at Crate & Barrel than those without vouchers. Even those who received vouchers but didn't redeem them had spent 5% more.

For Crate & Barrel, the DonorsChoose.org voucher scheme has been "a massive advertising programme that incurs no advertising expenses", Best says. "It showed that it's more cost-effective to do good to increase customer loyalty. And it has been a massive donor acquisition programme for us, since companies get their customers to become DonorsChoose.org clients."

Since 2006, Crate & Barrel and its customers have donated over \$700,000 to public school classrooms through DonorsChoose.org. Now firms such as Google, Yahoo and Facebook are launching DonorsChoose.org gift voucher initiatives of their own. As a result, DonorsChoose.org is doing a lot more good. In 2005, the non-profit handled \$2.5m in donations; last year, it handled \$10m.

Social ventures

The Crate & Barrel/DonorsChoose.org collaboration is a fine example of what Best calls "crowd-sourcing philanthropy", harnessing consumer spending power and corporate marketing budgets in the service of a good cause. But it is also a powerful demonstration of what might be called social venture capital – an emerging trend in which small social enterprises partner with big business, to their mutual benefit.

At a time when the credit crunch is forcing consumers as well as chief executives to rethink business as usual, social entrepreneurs such as Best offer big firms new ways to bolster their bottom lines while also meeting their corporate social responsibility goals. In return, major companies offer social entrepreneurs the chance to tap into in-house marketing, managerial and

commercial expertise while scaling up their operations to levels they could never achieve on their own.

“There is a phase change going on at the moment,” says John Elkington, founding partner and director of Volans, a consultancy focused on social and environmental innovation. “Social enterprises tell us something about the market, about developing new forms of value. They are testing out the markets of the future, trying out new business models. They are worth watching from a big company’s perspective, kind of like experimental animals.”

One of those experiments is happening in south-east London, at the offices of VOGraphics, a producer of corporate and music videos founded by 21-year-old Fabien Soazandry. VOGraphics got off the ground last year thanks to the Bright Ideas Trust, a charity set up by Tim Campbell, winner of the BBC’s *The Apprentice* programme, to support youth entrepreneurship in deprived inner-city areas. BIT, in turn, got off the ground thanks to the Bank of America Charitable Foundation, which is investing nearly £3m over the next two years in BIT and two other charitable partnerships in the UK selected for their potential to positively impact the communities in which Bank of America (BoA) operates.

Investing, not giving back

It’s telling that BIT did not simply follow the conventional charitable model by giving a grant to VOGraphics. Instead, it took an equity stake. And that, according to Amy Clarke, BoA’s international corporate social responsibility manager, is right in line with the bank’s unabashedly commercial view of social innovation. “It’s not so much about ‘giving back’, since giving back implies you took something that was not yours in the first place,” Clarke says. “The European model is much more about enlightened self-interest.”

Clarke sees the BoA Charitable Foundation as more than just a vehicle for dispensing cash to worthy causes. It is, she says, “an almost campaigning platform to articulate what we’re trying to achieve economically and socially”. Of course, working with charities such as BIT involves the usual upsides of corporate giving – creating goodwill and driving brand recognition. But beyond these softer sides of corporate responsibility, Clarke argues, is a more hard-nosed business argument. Clarke says: “There is a role for organisa-



PWC helping Cambodian women help themselves

tions like BoA in getting social entrepreneurs investment-ready. We invest to enable them to become viable marketplaces for a business like ours. They create value for us, and vice versa.”

For BoA, the added value of social investments lies in reviving economically dormant areas so that they become places where BoA can do business. Once a neighbourhood is able to support small and medium-sized businesses like VOGraphics, it becomes a viable marketplace for BoA’s banking and

Social enterprises are becoming serious partners and reliable suppliers

financial services as well as a proving ground for new product development. Plus, a thriving social business sector allows BoA to offer interesting investment opportunities to its more socially-minded wealth management clients. None of this will happen overnight, of course, but that too is part of the new thinking Clarke feels is essential to making these firms what she describes as “successful long-term trading entities”.

Today, big business can consider social enterprises as more than just feel-good investments; they are becoming serious

partners and reliable suppliers. Social entrepreneurs deliver social value, and they do it efficiently and at competitive prices, too. That’s a business imperative, since if social enterprises want major corporate partners, they need to be able to compete against all the other conventional companies out there hustling for the same investments and the same business opportunities. New York City-based Digital Divide Data is one social enterprise already competing with the big boys.

Serious suppliers

DDD is a fair trade outsourcer. It uses workers in Cambodia and Laos to digitise archive material and other historical content for publishing firms. “Some 80% of outsourcing goes to China, India, or the Philippines and is done in big cities by college-educated people,” says Jeremy Hockenstein, DDD’s founder. “That’s great, but we can have an even greater impact for poor people in poor countries by using IT outsourcing to help them break out of the cycle of poverty.”

DDD’s Cambodian and Laotian employees work half-time as digitisers and study half-time at university. Their salaries subsidise their educations, and DDD helps them find jobs once they get their degrees. That’s the social aspect of this social

enterprise, but the enterprising aspect is just as important.

Hockenstein does not fund DDD through charitable bequests; he goes after big contracts from major publishers, such as the New York Daily News. DDD is currently working on a two-year project to digitise the New York Daily News photo archive, which goes back more than a century and contains some of the oldest photographs of New York City. The photos are scanned in New York and transmitted to Cambodia, where DDD employees type in headlines and credit information to make the files ready for indexing and searching. "DDD needs large, recurring clients to be viable," says Hockenstein. "Having a client like the New York Daily News gives us legitimacy and credibility in the rest of the publishing

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***Pamela Hartigan,
Saïd Business School***

world. It helps our long-term goal to drive social change. To become mainstream, social enterprises need to be adopted by big companies."

Hockenstein also uses the social side of his company as a competitive advantage when pitching for new business. "When making a pitch, we ask clients to choose us because of quality and price. But we also ask them to take into account the social impact of the work they are doing. Outsourcing is not negative; it's not something to be defensive about. It can create jobs in poor countries. We ask clients to think of outsourcing not just as lowering costs and operating efficiently, but the work itself is doing a social good. We get through doors that might not otherwise open because of our social impact."

Social impact was definitely a factor when the New York Daily News chose DDD. "A couple of firms pitched for this business but DDD came down with the best pricing and they had the added social benefit, so it was easier to make a decision," says Nikhil Rele, the newspaper's director of photography for technology. "We're getting more bang for the buck. Our negatives are being digitised and made searchable instead of sitting in a filing cabinet starting to smell, and it feels nice to

know that someone is teaching the people in Cambodia a trade."

Other big firms are catching on. Publishing Technology, one of the largest suppliers of software and related services to the publishing industry, is another DDD client.

Pamela Hartigan, director of the Skoll Centre for Social Entrepreneurship at Oxford's Saïd Business School and a Volans founding partner, thinks there is another upside for companies working with social enterprises. "It can be a training ground for leadership," she says. She cites a number of blue chip companies that have secondment programmes with social businesses, programmes designed to get key staff out of the office and into a challenging foreign context where they can deploy their full professional skills. By sending top talent on experiential learning journeys, Hartigan argues, their worldviews are broadened, their business skills are honed, and they come back to the firm as better managers. Plus, these kinds of opportunities make great recruitment stories for new employees.

Creating leaders

PricewaterhouseCoopers, for example, is partnering with Hagar, a social enterprise that runs shelters and training programmes for abused women and children in Cambodia. Hagar is currently expanding into other Asian countries, and PwC has seconded staff to help the organisation deal with tax and corporate governance issues – all the issues, in fact, that any company faces when it launches an overseas expansion. It helps that Hagar's target markets in Asia mirror those of PwC.

"Social enterprises can stimulate leadership in ways that can't be done by sitting in the boardroom," Hartigan says. "Working with social businesses has massive benefits on staff motivation, corporate image, and thinking creatively. And this model has become infectious among young MBAs, who want to combine markets with meaning and not just find jobs to pad their pockets."

Henry Gonzalez is one of those young MBAs looking to mesh markets with meaning. Gonzalez, a native of Costa Rica, received his MBA from the Saïd Business



Take a punt on the little guy

School and was also a Skoll social entrepreneurship scholar. He is now vice-president for emerging markets debt with Morgan Stanley in New York City. "I was brought up in a developing country, so I am very close to that reality," Gonzalez says of his interest in social entrepreneurship. "I wanted to do something with social change and I knew there needed to be a connection with the private sector to make it scalable. I wanted to spend a few years in the private sector, get their vision, and learn how things are done."

Gonzalez is a fast learner. At Morgan Stanley, he was a founding member of the firm's Microfinance Institutions Group, which has intermediated transactions of over \$250m since 2006. His background in social entrepreneurship has also helped Morgan Stanley position itself in the Latin American marketplace. "Emerging markets are the future of finance," says Gonzalez. "Instead of working only with G7 or G10 countries, we can get our feet wet and see if it's worth pursuing further. For Morgan Stanley, it's a chance to gain revenue and an understanding of emerging markets."

Gonzalez says he wants to "build a bridge between the social and the financial". Collaborations between social enterprises and major companies, to achieve social as well as business goals, can perhaps serve as an early foundation for that bridge. That, in any case, is the hope of John Elkington: "Stuff that we struggled to get on the agenda a few years ago is now played back to us as mainstream. In a downturn, the initial response is to scale back on CSR. Over two or three years, though, we'll see a paradigm shift. We'll look at work differently and engage with different markets in different ways. And social enterprises will look distinctly more attractive." ■